

## Message Text

UNCLASSIFIED

PAGE 01 NAIROB 07637 01 OF 02 171517Z

ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 SSO-00 NSCE-00 USIE-00  
INRE-00 AID-05 CIAE-00 EB-07 FRB-01 INR-07  
NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02 LAB-04  
EPG-02 SIL-01 OMB-01 AGR-01 PC-05 DODE-00 PM-04  
H-02 L-03 NSC-05 PA-02 PRS-01 SS-15 /101 W  
-----171638Z 114874 /44

O R 171320Z JUN 77

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC IMMEDIATE 9052

INFO AMEMBASSY ADDIS ABABA

AMEMBASSY DAR ES SALAAM

AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY MOGADISCIO

USDOC WASHDC

UNCLAS SECTION 1 OF 2 NAIROBI 7637/1

PASS ALSO OPIC AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, KE, BGEN, EAGR, ENRG

SUBJ: FINANCE MINISTER ANNOUNCES FY 78 BUDGET

1. SUMMARY: FINANCE MINISTER'S ANNUAL BUDGET MESSAGE  
REVIEWED FAVORABLE DEVELOPMENTS IN KENYAN ECONOMY  
DURING 1976 AND ANNOUNCED 25 PERCENT INCREASE IN  
GOVERNMENT EXPENDITURES FOR FY 78. TREASURY ESTAIMATES 1977  
BALANCE OF PAYMENTS SURPLUS WILL APPROACH 100 MILLION POUNDS  
AND ECONOMY MAY GROW 6-7 PERCENT. HEALTHY FOREIGN  
RESERVES SITUATION PROMPTED GOK TO ACCELERATE REPPAYMENTS  
OF SOME EXTERNAL DEBT. WORRIED ABOUT HIGH PRIVATE SECTOR  
LIQUIDITY, GOK IMPOSED EXPORT DUTY ON COFFEE AND TEA IN  
ADDITION TO RAISING MINIMUM COMMERCIAL BANK LIQUIDITY  
RATIO END SUMARY.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 NAIROB 07637 01 OF 02 171517Z

2. IN WHAT HE TERMED QUOTE EXPANSIONARY BUDGET UNQUOTE  
FINANCE MINISTER KIBAKI OUTLINED FY 78 GOVERNMENT  
EXPENDITURES REPRESENTING 25 PERCENT INCREASE OVER  
CURRENT FISCAL YEAR. REFERRING TO BOOMING REVENUES FROM  
COFFEE AND TEA EXPORTS, KIBAKI STATED KENYAN ECONOMY  
PREPARED TO RECOUP MOMENTUM IN DEVELOPMENT PROGRAMS WHICH

HAD BEEN SACRIFICED IN AUSTERITY BUDGETS OF PAST THREE YEARS. GOK ECONOMISTS ESTIMATE 5 PERCENT GDP GROWTH IN 1976 AND ANTICIPATE INCREASE OF 6-7 PERCENT IN 1977. FINMIN CONCLUDED BUOYANT REVIEW OF KENYA'S RECENT ECONOMIC RECOVERY WITH WARNING THAT FOREIGN EXCHANGE INFLOW POSED SERIOUS INFLATIONARY RISKS IF NOT PRODUCTIVELY ABSORBED. FY 78 BUDGET THEREFORE TACKLES PROBLEM OF EXCESS LIQUIDITY IN PRIVATE SECTOR BY TRANSFERRING PART TO EXCHEQUER AND NEUTRALIZING SUBSTANTIAL AMOUNT WITHIN BANKING SYSTEM.

3. HIGHLIGHTS OF MINISTER'S PROGRAM INCLUDE:

--INCREASE IN MINIMUM LIQUIDITY RATIO FOR COMMERCIAL BANKS FROM 18 PERCENT TO 20 PERCENT

--EXPORT DUTY ON COFFEE AND TEA,

-- MINOR REVISIONS OF CUSTOMS AND EXCISE DUTIES,

-- INCREASED AIRPORT PASSENGER TAX FROM 20 TO 40 SHILLINGS:

--SALES TAX ON MOTOR FUEL INCREASED BY 20 CENTS,

--AMENDMENTS TO INCOME TAX ACT TO IMPROVE EFFICIENCY OF COLLECTION AND EQUITY OF TAX LIABILITY:

--MORE EFFECTIVE MOBILIZATION OF PRIVATE SAVINGS, PARTICULARLY IN RURAL AREAS, THROUGH GOVERNMENT INSTITUTIONS,

--PREMATURE PAYMENT OF 11.4 MILLION POUNDS IN EXTERNAL LOANS AND 19 MILLION POUNDS IN OUTSTANDING IMF UNCLASSIFIED

UNCLASSIFIED

PAGE 03 NAIROB 07637 01 OF 02 171517Z

DRAWINGS.

4. MOST SIGNIFICANT FISCAL MEASURE IMPOSED THIS YEAR IS TAX ON KENYA'S TWO LUCRATIVE EXPORT COMMODITIES -- COFFEE AND TEA. NEW DUTY WAS MOTIVATED PRINCIPALLY BY FEAR THAT TEMPORARY FOREIGN EXCHANGE BONANZA WOULD OVERHEAT KENYAN ECONOMY AND PARTLY, TOO, BY GOK DISAPPOINTMENT THAT INCOME TAX COLLECTIONS FROM NEWLY RICH FARMERS HAD NOT RISEN PROPORTIONATELY. TAX IS TRIGGERED AT METRIC TON PRICE OF 1000 KENYAN POUNDS (2,400 DOLLARS) AND APPLIED AT 15 PERCENT ON EXCESS ABOVE 1000 POUNDS AT RATE OF 10 PERCENT. IN CASE OF COFFEE, TAX WILL BE COLLECTED IN NAIROBI COFFEE AUCTION, WHEREAS WITH TEA, DUTY WILL BE CHARGED ON EXPORT DECLARATIONS AT PORT OF SHIPMENT.

5. CHANGES IN IMPORT DUTIES ARE PART OF LONG-TERM GOK TARIFF REFORM PROGRAM, PLACING GREATER EMPHASIS ON EFFICIENT UTILIZATION OF DOMESTIC RESOURCES, WHILE DISCOURAGING NON-ESSENTIAL IMPORTS. LOCAL INDUSTRIES SUFFERING FROM

IMPORT DUMPING, EXPECIALLY TEXTILES, HAVE BEEN AFFORDED  
SOME PROTECTIVE RELIEF. A FEW CHANGES, SUCH AS INCREASED  
DUTIES ON CEREALS, COINCIDE WITH KENYA'S IMPROVED  
AGRICULTURAL PRODUCTION. TARIFF MEASURES SIGNIFICANT TO U.S.  
TRADE INCLUDE:

--INCREASED DUTIES (10 TO 20 PERCENT) ON MAIZE, MILLET  
AND GRAIN SORGHUM:  
--AIRCRAFT ENGINES, PREVIOUSLY FREE, NOW 20 PERCENT,  
--AIRPLANES, FROM 10 PERCENT TO 20 PERCENT.  
OVERALL REVENUE EFFECT OF TAX MEASURES ANNOUNCED IN  
BUDGET SPEECH EXPECTED TO BE 24.65 MILLION POUNDS,  
15 MILLION POUNDS FROM EXPORT DUTY ALONE.

6.FINANCIAL STATEMENT FY 77  
(IN MILLIONS OF KENYAN POUNDS AT ONE POUND -2.4 DOLLARS)  
RECURRENT ACCOUNT  
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 NAIROB 07637 01 OF 02 171517Z

REVENUE	PLUS 306.32
EXPENDITURES	-304.27
SURPLUS	PLUS2.05
DEVELOPMENT ACCOUNT	
REVENUE	PLUS 85.03
EXPENDITURE	-131.05
DEFICIT	-46.02
OVERALL BALANCE	
RECURRENT SURPLUS	PLUS 2.05
DEVELOPMENT DEFICIT	-46.02
OVERALL DEFICIT	-43.97
DINANCING OF DEFICIT	
REPAYMENT OF CENTRAL BANK	
ADVANCE	-4.40

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 NAIROB 07637 02 OF 02 171605Z  
ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 SSO-00 NSCE-00 USIE-00  
INRE-00 AID-05 CIAE-00 EB-07 FRB-01 INR-07  
NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02 LAB-04

EPG-02 SIL-01 OMB-01 AGR-01 PC-05 DODE-00 PM-04

H-02 L-03 NSC-05 PA-02 PRS-01 SS-15 /101 W

-----171639Z 115635 /44

O R 171320Z JUN 77

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC IMMEDIATE 9053

INFO AMEMBASSY ADDIS ABABA

AMEMBASSY DAR ES SALAAM

AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY MOGADISCIO

USDOC WASHDC

UNCLAS SECTION 2 OF 2 NAIROBI 7637/2

E.O. 11652: N/A

TAGS: EFIN, KE, BGEN, EAGR, ENRG

SUBJ: FINANCE MINISTER ANNOUNCES FY 78 BUDGET

TREASURY BILL ISSUES	PLUS 25.00
CREALS & SUGAR FINANCE	
CORP. DEPOSITS	PLUS 5.00
TAX RESERVE CERTIFICATES	PLUS 3.00
RUNDOWN ON DEXCHEQUER CASH	PLUS 15.37
TOTAL FINANCING	PLUS 43.97

7. FORECAST FY 78 BUDGET

RECURRENT ACCOUNT

REVENUE	PLUS 380.02
EXPENDITURES	-367.04
SURPLUS	PLUS 12.98

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 NAIROB 07637 02 OF 02 171605Z

DEVELOPMENT ACCOUNT

REVENUE	PLUS 157.39
EXPENDITURES	-204.19
DEFICIT	-46.80

OVERALL DEFICIT

RECURRENT SURPLUS	PLUS 12.98
DEVELOPMENT DEFICIT	-46.80
TOTAL	-33.82

FINANCING OF DEFICIT

REASURY BILL ISSUES	PLUS 25.00
RUNDOWN ON	
EXCHEQUER CASH	PLUS 8.82
TOTA FINANCING	PLUS 33.82

8. GOK EXPECTS SUBSTANTIAL INCREASE IN EXTERNAL AID

FROM 40 MILLION POUNDS IN FY 77 TO 69 MILLION POUNDS IN FY 78. NET EXTERNAL COMMERCIAL BORROWING WILL BE NEGATIVE AS GOVERNMENT ACCELERATES REPAYMENT OF OUTSTANDING LOANS. TOTAL BORROWING FROM DOMESTIC BANKING SYSTEM WILL INCREASE 67PERCENT TO 62.6 MILLION POUNDS, WITH A LARGE, 17.6 MILLION POUND ADVANCE FROM CENTRAL BANK.

9. EAST AFRICAN COMMUNITY: BUDGET MESSAGE ADDRESSED PROBLEM OF DISINTERGRATING COMMUNITY BY MINIMIZING IMPACT ON KENYAN ECONOMY. FINMIN REGRETTED THAT PARTNER STATES NO LONGER SHARED "COMMUNITY OF INTEREST AND WILLINGNESS TO WORK TOGETHER." KENYA, HOWEVER, PLANS TO GO IT ALONE, INDEPENDENTLY ASSUMING FINANCIAL RESPOSIBILITIES FOR GENERAL FUND SERVICES AND CORPORATION ACTIVITIES ESSENTIAL TO NATIONAL WELFARE.

10. TOUCHING ON 1979/83 DEVELOPMENT PLAN, KIBAKI SAID THEME WOULD BE ALLEVIATION OF POVERTY THRU CREATION OF NEW EMPLOYEMENT OPPORTUNITIES AND PROVISION OF BASIC SOCIAL SERVICES. MORE ATTENTION TO BE PAID, AS WELL, TO RAISING UNCLASSIFIED

UNCLASSIFIED

PAGE 03 NAIROB 07637 02 OF 02 171605Z

PRODUCTIVITY OF MARGINAL LANDS.

11. COMMENT: TREASURY EBULLIENCE OVER NEW COFFEE WEALTH WAS CAUTIOUSLY TEMPERED BY FINMIN'S WARNING THAT KENYA EXPERIENCING ONLY TEMPORARY BOOM AND PAYMENTS DEFICITS COULD RE-OCCUR WITH FALLING COMMODITY PRICES. THEREFORE, WHILE ACCELERATING DEVELOPMENT SPENDING AND ASSUMING ENLARGED BUDGET DEFICIT, GOK FINANCING PLANS ATTEMPT TO MINIMIZE INFLATIONARY RISS BY MOPPING UP EXCESS BANK LIQUIDITY LYING IDLE OVER PAST YEAR. EXPORT TAX ON COFFEE MAY EVEN HAVE COME TOO LATE IN BOOM CYCLE AS 76-77 KENYAN COFFEE YEAR NEARLY TERMINATED AND WORLD MARKET PRICES FOR 77-78 SEASON BEGINNING IN SPETEMBER STILL UNCERTAIN.

12. ALTHOUGH INDIVIDUAL MINISTRY BUDGET ALLOCATIONS HAVE NOT YET BEEN PUBLISHED EARLY REPORTS SHOW WATER DEVELOPMENT AND POWER & COMMUNICATIONS RECEIVING THE LION'S SHARE ON DEVELOPMENT CCOUNT. STEEP INCREASE IN LATTER'S BUDGET DUE TO CAPITAL EXPENDITURES ON NEW KENYA AIRWAYS. MINISTRY OF DEFENCE WILL REPORTEDLY RECEIVE ABOUT 29 MILLION POUNDS, COMPARED TO 40 MILLION POUNDS IN FY 77.

13. NOTABLY ABSENT FROM BUDGET SPEECH WAS HOPED FOR LIBERALIZATION OF EXCHANGE CONTROL SCHEDULES, ALTHOUGH STREAMLINED CENTRAL BANK PROCESSING HAS SHORTENED CHRONIC DELAYS IN RESPONDING TO FOREIGN EXCHANGE APPLICATIONS.

14. OFFERING FEW SURPRISES, 1977 BUDGET MESSAGE  
PROPOSES CONSERVATIVE MANAGEMENT OF KENYA'S NEW  
WEALTH AND RE-AFFIRMS COMMITMENT TO LONG-TERM  
MACRO-ECONOMIC RESTRUCTURING IDENTIFIED BY IBRD AND REVISED 1974-78  
GOK DEVELOPMENT PLAN.  
LINDSTROM

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 17-Jun-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01-Jan-1960 12:00:00 am  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977NAIROB07637  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770217-0189  
**Format:** TEL  
**From:** NAIROBI  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770645/aaaabnrh.tel  
**Line Count:** 284  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 4c01fc7a-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION AF  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 22-Dec-2004 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2113298  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCE MINISTER ANNOUNCES FY 78 BUDGET  
**TAGS:** EFIN, BGEN, EAGR, ENRG, KE  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/4c01fc7a-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009